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TRADE AND ENVIRONMENT

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Trade and Environment

The relationship between trade and environment lies in the simple fact that trade deals with goods and services produced by industries that have an impact on the environment

The Growing Importance of Trade and Environment

The importance of the issue of trade and environment has been increasing because trade has been gaining importance in economic development strategies that should reflect a better consideration of goals for both the physical environment and material welfare and be capable of integrating environmental and economic issues.

Trade has been increasing at the world level since the 1980s. It has been growing in importance as one of the principle mechanisms for economic globalization. This rising importance reflects the new policies that have recently prevailed in most of the developing countries which are increasingly turning towards exporting in order to achieve economic growth and long-term stability

Some developing countries have been operating export-oriented industries that proved to be the most effective way to economic development in the 1970s and 1980s. Countries that pursued export-oriented industries and opened up were the countries that achieved high economic growth (the Asian tigers for example), while those which pursued import-substituting industries (Latin American countries) did not achieve the aspired economic growth. Consequently, many developing countries have embarked on strategies that allow them to follow the steps of the East Asian countries. They are aiming to achieve economic growth and to participate in the international division of labour, and have, in fact, opened up for trade and investment.

The Basic Trade and Environment debate

It is argued by environmentalists that the increase in trade at the world level will have a negative effect on the environment. By the mere fact that

traded goods will require more fossil fuels to be burnt for the production purpose whereby more electricity is required, as well as for the transportation of exportable products. In addition to other production processes that pollute and erode resources. However, a counter argument has been gaining popularity, it defends trade as being an important vehicle for economic growth which will be accompanied by greater public awareness of environmental issues that may be followed by placing higher value on the quality of the environment. This is true since clean environment is considered as a normal good, one whose demand increases with increased income. Therefore, growth in trade will enhance economic growth in developing countries, increasing income levels and the demand for normal goods including a clean environment.

The Environmental Impact of Trade

Environmental impact of international trade has become of growing concern to both developed and developing countries, and has, therefore, generated ample discussion at the global level.

Basically, these concerns are related to burning fossil fuels, air pollution and the exhaustion of natural resources. The issue becomes even more controversial when discussing the trend of encouraging export-oriented economic activities (encouraged by the Bretton Woods' institutions and under the GATT provisions) among developing countries. The World Bank and the International Monetary Fund (IMF) have encouraged developing countries undergoing structural adjustment programmes to open up and promote exports. In addition, the World Trade Organization (WTO) promotes free trade and phasing out of tariffs and is encouraging developing countries to become more competitive in trade.

The Impact of Environmental Regulations on Trade

Increasing environmental concerns at the global level have compelled governments to apply policies that aim at protecting the environment. Among the policies available are regulations, assignment of pollution rights (pollution permits), fiscal measures (taxation and subsidization) or combinations of these. These environmental policies which aim at the internalisation of environmental control cost (ECC) have impacts on international trade.

Adoption of stringent environmental regulations in some developing countries, however, may put these countries at a disadvantage in a competing world market. More environmental stringency means higher cost of production, as the price of using the input environment will be accounted for either by using clean technology or by paying an environmental tax. Hence products exported by these developing countries will lose their competitiveness in the world market and will result in a negative effect on their economic growth. At the same time less of the product will be produced and therefore less will be provided in the international market for trade, and as a result consumer's welfare will become worse off.

Moreover, inter-country differences in environment regulations of production pollution might lead to loss in competitiveness and to the relocation of industries. Stringent environmental regulations relative to those in other countries result in loss of comparative advantage in some polluting sectors, at the same time they could lead to shifting resources away from the pollution-intensive-sectors. This in turn will affect trade patterns which will no more reflect the relative assimilative capacity (a country's level of pollution tolerance or capacity). The difference in regulations might also lead to the relocation of "dirty industries" to those countries with low standards. This argument has been gaining attention although evidence show that change in the destination of FDI is influenced by many economic variables other than environmental cost (such as labour, and market size).

The Need for Sustainable Development

Unintervened polluting activities are clear examples of negative "externalities". Externalities are one form of market failure where the social cost of a product or physical input is not accounted for in its price, the social cost could be negative or positive. Negative externalities occur when an activity imposes an adverse effect on others.

Polluting resources such as air, water, and land by an economic activity constitute market failure because this activity is using these resources as inputs to their production process without accounting for the price that people, living around or benefiting from these resources, pay as a result of polluting them. Moreover, when firms do not pay for using and polluting these resources they will use them excessively. In other words, an industry would pollute as long as its private marginal benefits exceeded its private marginal cost.

To safeguard the environment does not mean that production should stop and economic growth comes to a halt. An optimal level of production has to be found where a certain level of pollution is acceptable.

Therefore, producing exportable goods that entail resources pollution and constitute negative externalities have to be intervened in order to make them produce at an optimal level of acceptable environmental pollution. Hence to ensure environmental sustainability some measures and policies will have to be introduced to ensure that producers operate according to the thesis of optimal level of pollution.

This balance between economic activity and environment sustainability is at the core of literature on sustainable development which was highlighted in Rio de Janeiro in 1992. Sustainable development had been defined earlier (1987), at the World Commission on Environment and Development as "the development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Within the definition of sustainable development three main concepts are carried: economic growth, ecological balance and social progress.

Trade Measures for Environmental Purposes: Trade Barriers?

Developing countries are sceptical about trade measures that are being applied as a result of environmental policy, Multilateral Environmental Agreements (MEAs) and consumer preferences in developed countries that might discriminate against their products. In other words some developing countries consider these measures as a form of protectionism or as barriers to trade.

Of the 200 MEAs that have been concluded so far, only 20 incorporate trade measures, restricting trade in certain products either between parties to an MEA or between a party and non- party to an MEA. Of the most important MEAs that contain trade measures are: The 1973 convention on International Trade in Endangered Species (CITES), the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer and the 1988 Basel Convention on the Control of Transboundary movement of hazardous wastes.

Environmental policies relevant to trade and environmental measures with significant trade effects also exist and include: environmental policies;

tradable economics permits; fiscal incentives, emission taxes, and environmental subsidies. These policies aim at cleaning the processes of production and at protecting the environment.

Another challenge for developing countries are charges and taxes for environmental purposes; and requirements for environmental purposes relating to products, such as standards and technical regulations, and packaging, labelling and recycling requirements. Developing countries had their doubts whether such measures were the most effective instrument to help environmental protection, and whether other instruments existed and were equally effective.

Developing Countries' Concerns

In fact, trade measures applied against developing countries for environmental purposes do not help developing countries become cleaner, they will only make them poorer and in shortage of foreign currency which could hinder their ability to buy capital goods that are essential for growth. Instead, extending technical and financial assistance for environmental purposes would serve the purpose of both the proponents of environmental protection and developing countries at the same time, thus yielding a win-win situation

A- Environmental Requirements, Regulations and Eco-labelling

Developing countries could be exposed to the possibility of green protectionism which is made possible by the compulsory environmental regulations and voluntary eco-labelling schemes that are becoming increasingly popular especially in the EU. In fact, stringent environmental regulations, standards, and requirements for the protection of human, plant and animal health and life are allowed under the TBT and SPS agreements. Developing countries, therefore, while legitimately opposing signs of green protectionism should try and meet standards and requirements of their trading partners.

One of the sources of scepticism of developing countries is regarding the handling regulations and requirements that are becoming increasingly popular. Packaging regulations and requirements in some industrialized countries are forcing exporters to change their packaging material and to go through the trouble of providing different packaging for different export markets.

Regulations governing environmental aspects other than packaging are numerous. They are also a source of concern for developing countries. Moreover, regulations that limit the level of pesticides residues could make it more difficult for developing countries to sell their agricultural products in the developed countries

It is worth mentioning that packaging and other environmental regulations do not usually pose a big problem to large multinational enterprises, they usually have no problem in complying. Such regulations, however, cause many problems for small and medium enterprises (SMEs) in the developing countries especially that SMEs encounter difficulty in obtaining information about regulations and requirements as well as in adjusting and complying with them.

Several kinds of eco-labelling schemes have been put to use in the developed countries. So far they have been voluntary and covering different criteria. Eco-labels are information-based instruments that aim at raising consumer's awareness about the environmental characteristics of a product and its packaging. Eco-labelling is allowed under the TBT agreement, however there is a controversy on whether eco-labelling based on Lifecycle Analysis (LCA) which includes non-product-related production and process methods (PPMs) are covered under the TBT agreement.

Eco-labels based on LCA, (which is difficult to conduct and could be discriminatory) and on non-product-related PPMs could have an effect on international trade. However, since these eco-labels are still voluntary they do not pose a problem under WTO. During the CTE negotiations some developed countries regarded eco-labels that included non-product-related PPMs as covered under the TBT agreement insinuating that such schemes could be made compulsory by governments. This discussion was opposed by developing countries that stressed that the TBT agreement does not cover such labelling. Developing countries are concerned that voluntary eco-labelling schemes covering (LCA) and non-product-related PPMs will spread to an extent that it will result in market segmentation. Consumers in developed countries will increasingly base their choices on these labels, and since these labels base their requirements on environmental, social, and cultural facts that reflect the standards of developed countries, consequently products from developing countries specially those produced by small and medium enterprises would not be able to comply.

ESCWA countries so far have not developed their own eco-labelling schemes; some countries do not have the institutions to award the required labels for their exports to the industrialized country. If a company in the ESCWA member countries needs to have the “green-dot” label, it will not find the institution that could award it this label and consequently the company will resort to a foreign institution that could give these labels.

ESCWA countries have just introduced the ISO 14000 standards certificate. This is about the closest that ESCWA countries came to eco-labelling. To start with ISO 14000 standards is only a few years old, however, it is even more recent in the ESCWA member countries and only a few companies have acquired the certificate.

B- ISO 14000 Standards

ISO 14000 standards series were developed after the Earth Summit in 1992, when the international community realized the need for “tools to help measure environmental performance, and develop powerful environmental management techniques”. The ISO 14000 series were developed by the International Standardization Organization (ISO) so as to help entrepreneurs look at all areas where their business have an environmental impact with an approach that could help them reduce cost of waste management, reduce energy and input consumption, lower distribution costs, and draw a framework for continuous improvement of their environmental performance.

Attaining ISO 14000 is a costly process, many businesses in the ESCWA member countries especially small and medium enterprises that are interested in getting the ISO 14000 certificate are not able to meet the costs. It is to be noted that in some of the ESCWA member countries there are few institutions that extend financial assistance for businesses that are ready to obtain the ISO 14000 certificate. Even with such financial assistance, obtaining ISO 14000 is still costly and hence not many entrepreneurs are tempted to obtain it especially that these businesses do not see the profitability of obtaining such a certificate.

The International Standardization Organization (ISO) was also approached by the international community to prepare standards to harmonize eco-labelling that has been proliferating with different criteria which creates confusion to the consumers as much as for the suppliers of products. By developing such harmonized standards for eco-labels that are being applied in different countries, ISO will be contributing to eliminate what could constitute technical barriers to trade.

In sum, ISO 14000 is becoming of interest to governments and industries. The preference of companies and governments is shifting towards dealing with suppliers who are ISO 14000 certified. If this trend keeps on full force it means that enterprises that are not certified will find difficulty in exporting to certain markets. ESCWA member countries still lag behind in being ISO 14000 certified because of the high cost that is needed to change lines of production and their technologies to obtain the certificate. ESCWA governments, international organization, and industrialized countries that are already extending assistance toward having enterprises in the ESCWA member countries should cooperate further to persuade and assist more companies to obtain the certificate.

C- Market Access

One major concern for developing countries is market access in a world where competition is growing and competitiveness is hard to achieve especially on environmental grounds. Developing countries and ESCWA member countries are concerned with securing market access as well as finding new markets for their exports. Adding to this that exports from developing countries are vulnerable to environmental measures. Most of the exports produced in the developing countries are produced by small and medium enterprises which most of the time lack the information about the standards required in the industrialized countries or lack the means to comply with such standards.

The phasing out of preferential market access for developing countries as a result of the establishment of WTO which is expected to deteriorate further with the launching of future WTO Rounds will impact exports from developing countries negatively. Preferential treatment and market access are essential for developing and least developed countries. The lack of preferential treatment could also have an adverse effect on the attempts of these countries to protect the environment since the erosion of exports will lead to shortage in funds and hence the allocations for environmental protection will diminish. This will undermine the endeavour towards sustainable development.

The erosion of preferential treatment coupled with trade restriction through environmental measures or trade measures could be devastating to the economies of developing and least developed countries. This will make it difficult to identify win-win opportunities which are associated with the removal of trade restrictions and distortions that can result in economic and environmental gains.

Moreover, eco-labelling schemes that are based on different criteria could be threatening market access for developing countries. Those eco-labels based on PPMs are even more threatening especially that they are complex and need some clarifications on the definitions of international standards and equivalency.

Like other developing countries, ESCWA member countries will face the problem of market access if environmental trade restrictions that are WTO inconsistent are applied, or when eco-labelling schemes based on PPMs become compulsory or when such eco-labelling proves to be covered under the TBT agreement. This coupled with the erosion of preferential market access will have serious drop in exports from ESCWA member countries. These countries should take serious steps towards enhancing their compliance with international standards of which environmental ones that are within their capacity. At the same time they should engage actively in multilateral negotiations on trade and the environment to try to keep preferential treatment and seek technical assistance.

Environmental Barriers to Trade and the WTO

Trade measures for environmental purposes are allowed under WTO provisions. Articles XX.b and XX.g allow for measures that are WTO inconsistent to protect human, animal and plant life and health and to protect exhaustible resources from depletion

Different WTO provisions contain environmental clauses that allow countries to take trade measures and policies for environmental purposes provided that these measures and policies are non-discriminatory and do not create trade distraction. Developing countries have to adjust and prepare themselves in order to export according to the environmental specifications of their trading partners. However, there are some environmental criteria and policies that are stringent and could pose serious damage to international trade especially to those countries that do not have the means to change their line of production and technologies to meet environmental preferences of their trading partners.

A concern of ESCWA Member Countries

ESCWA member countries' first exported product is oil and oil products. Although WTO doesn't exclude oil explicitly it still deals with oil as if it was excluded. However, some oil-related disputes were brought to the WTO Dispute Settlement Body during which oil was treated like any other

product. ESCWA member countries especially those producing and exporting oil and oil products have to be aware of the implications that trade and environment issues could have on the export of this vital product.

A trade related environmental dispute could very well occur with the ESCWA oil producing countries in the manner of the dispute that took place between Venezuela and the United States of America. The USA banned the import of Venezuelan gasoline on the grounds that the product does not comply with the standards of the US Clean Air Act. Venezuela argued that its exported gasoline to the US was not subject to the same rules as the gasoline produced in the US, thus the US has violated the National Treatment Clause. It also argued that the ban was restricting to international trade. Although the panel agreed that a policy to reduce air pollution was a sovereign right for the US, it had to prove a crucial link between the measures and clean air since it treated the Venezuelan gasoline less favourably than its own.

The oil-producing ESCWA member countries should be aware of the fact that under the TBT agreement a country is allowed to set its own environmental and other standards to protect human, animal or plant life. However, these countries should assert in the coming CTE discussions or in the forthcoming Millennium Round that they should be granted sufficient time in order to avert all sources of risks to human, animal or plant health or life.

The following example makes it clear how one decision to ban a product may shake an industry in the oil-producing ESCWA member countries. The State of California has announced a decision that awaits the approval of the US Federal government to ban the fuel additive "Methyl Tertiary Butyl Ether (MTBE)" which is added to gasoline to substitute lead. The decision stated that MTBE should be removed from gasoline gradually until the year 2002. The continuous use of MTBE was found to be health hazard, and according to a report prepared by the University of California there were health and environmental risks to the use and storage of MTBE. The negative impact on the environment was found due to the leakage of the stored MTBE to ground and drinking water.

This decision could seriously affect the production and the sales of Saudi Basic Industries Corporation (SABIC) which produces 3 million tons of MTBE annually. The production of SABIC is mostly exported internationally where fifty percent goes to the US of which 33 percent goes to the State of California. It is also expected that this decision will be followed by others in the different American States. SABIC should react to

this decision by changing its production line to produce alternative petrochemicals before the year 2002.

Conclusion:

The issue of considering environmental concerns in economic activities has become even more compelling to the ESCWA member countries as most of them are pursuing market liberalization policies that require them to open up their economies. The lack of environmental legislations in a country is an incentive for the expansion of pollution-intensive industries without concomitant increase in waste management, legislation, or pollution reducing technologies. Hence, the environmental losses connected to the activities of these industries could make this country worse off. Since such investments are likely to result in further environmental costs, the questions to be asked -in connection with ESCWA member countries- are: how to strike a balance between environmental concerns and economic development related to trade and how should the governments of the region take precautionary measures to reduce future losses related to trade and environment.

At the same time ESCWA member countries have well-founded fears about developed countries using environmental trade measures and regulations as a way to discriminate against their exports. Their claim that these methods constitute trade barriers has been taken seriously in WTO. These concerns stem from the fact that these countries are attempting to engage in the world economy in order for them to grow economically thus eradicating poverty and finding the means to protect their human, animal and plant environment and health. Their main concern is that stringent trade measures might not work neither towards their economic nor their environmental improvement. Moreover, limited market access, unilateral actions, encroachment on sovereignty are justified fears that should be put into an agenda for the international community to look into.

Consequently, in order to meet the challenge of sustainable development it is recommended that ESCWA member countries should:

- Raise awareness on the inter-related issues of trade and environment, and build the capacity of officers and personnel in all related public and private institutions.
- Chambers of commerce and other private and public trade promoting institutions could be instrumental in awareness raising

and capacity building as they are poised to disseminate the risks and the opportunities of the issues of trade and environment to the widest group of merchants and industrialists especially those operating small and medium enterprises.

- Knowing that sustainable development depends upon a dialogue between the trade and environment communities, ESCWA countries should strengthen cooperation between the Ministries of Industry, Trade and the Environment at the national level in order to institutionalise trade and environment. This could be done by establishing a section which could be responsible for an educational, information-oriented programme that could also extend technical assistance. Such a programme could be financed by private and public sectors working on trade, as well as through funds extended by international organizations. UNCTAD could assist by providing training to personnel of such a section.
- ESCWA countries may also want to establish a trade and environment programme at the regional level which deals with the various aspects of this topic.
- They should be working towards promoting clean production while at the same time trying to obtain environmentally sound technologies through grants or at favourable condition.
- Devise a national programme on the environmental aspects of producing and exporting strategic goods and commodities. The programme would follow up on environmental standards required and regulations applied by trading partners and attempt to control the environmental quality of these products. These countries could also devise a strategy to enhance environmental management of such industries
- When such programmes are enacted it will become easier to draft a national blueprint for environmental action towards cleaner production. This could be submitted to international environmental organizations and to industrialized countries to show seriousness about cleaning production and hence encouraging their technical and financial assistance to implement such a blue print
- Encourage industries in the ESCWA region especially small and medium enterprises to obtain the ISO 14000 certification.

- ESCWA countries that are WTO members should become more active in participating in the meetings of the Committee of Trade and Environment (CTE). They should become more involved in CTE and other multilateral trade and environmental discussions in order to relay their viewpoints and participate in decision-making which could reflect positively on their exporters. While seven ESCWA member countries are WTO members, only Egypt negotiated at the Committee for Trade and Environment meetings.
- ESCWA member countries should start working towards initiating an eco-labeling scheme at the regional level in order to facilitate the attainment of eco-labels that allow products to penetrate markets in the industrialized countries. These countries could start by cooperating with the League of Arab States to initiate an Arab eco-labelling scheme and later could seek the expertise of the International Standards Organization (ISO) in this area in order to set criteria that are internationally approved. Such schemes could be based on the ISO14022.
- ESCWA's first exports are oil and oil products that are mainly directed towards Asia, Europe, the Arab countries, and the US (in descending order). Europe and the US are known to take unilateral measures against products that pose risks to their human, animal and plant life and health. ESCWA member countries, therefore, should negotiate defending their position as main exporters of oil, they should insist on getting technical and capacity building assistance in order to improve, if needed, the environmental aspects of their production. They also need to negotiate to be given sufficient time to adjust to changes in standards of their trading partners in order for them not to incur huge losses they cannot afford.

